



Office of the City Auditor

Audit of the Collection of Airport and Airpark Fees Report No. 0513

August 8, 2005

Sufficient controls are in place to ensure that fees are billed and collected as required by the Rates and Fee Schedule and Minimum Operating Standards. However, procedures should be documented and compliance with requirements of the Minimum Operating Standards could be improved.

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August 8, 2005

To the Most Honorable Mary Manross, Mayor
and Members of the Scottsdale City Council

Transmitted herewith is a report on the Collection of Fees for the Airport and Airpark, Report No. 0513. We would like to thank Airport and Accounting staff for their cooperation and assistance during our audit.

During our review, we noted two issues that deserve mentioning. City Code has a requirement that the Airport Advisory Commission report to the City Council once a year on Airport activities. Airport management has advised that while they have not presented a formal report to Council within the last year, they are in the process of preparing one. However, there are no procedures currently in place to ensure that this takes place.

We also noted that City Code places the responsibility for the administration and collection of Airport related fees with the Tax Collector (Financial Services General Manager or designee). Currently, collection of fees is split between the Airport and Financial Services. Although we found controls to be sufficient, this responsibility may be better placed within Financial Services, which already has systems in place to send billings for other City fees and taxes. Specifically, billing of Customs Fees could be transferred. As of close of this audit, work is underway to transition collection of Customs Fees.

If you need additional information or have any questions, please contact me at 480-312-7756.

Respectfully submitted,

A handwritten signature in dark ink, reading "Cheryl Lee Barcala". The signature is written in a cursive, flowing style.

Cheryl Barcala, CPA, CIA, CFE, CGFM, CISA, CISSP
City Auditor

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EXECUTIVE SUMMARY

An audit of the airport and airpark fees was included on the 2005 Audit Plan to determine if controls were adequate to ensure that fees are collected. The objectives of this audit were to determine if:

- Procedures are in place to ensure that all fees are collected.
- The correct fee amounts are being collected.
- There is compliance with City Code and Minimum Operating Standards related to the collection of fees.

Scope was limited to the collection of airport-related fees but we did consider whether or not there were other issues that needed to be addressed.

Our work supports a conclusion that there are sufficient controls to ensure that airport-related fees will be collected. While not consistently documented, Airport staff have developed procedures for tracking and monitoring the receipt of payments and adequate documentation was available for all transactions in our sample. Fees collected agreed to the Rates and Fees Schedule approved by City Council with minimal exception and City Code requirements have been followed. The City Council and the Airport Advisory Commission have approved all fees, leases, and license agreements with a term greater than one year and the City Attorney approves, in form, licenses and agreements with terms of one year or less. A review of aeronautical business permits (ABP) confirmed that the Director had approved the permits and that the Airport Advisory Commission had ratified the decisions.

We found some discrepancies that were discussed with management and not considered material enough to warrant inclusion as a reportable condition. We did note that older lease files did not contain documented lease escalations making it difficult to verify that the correct base rent is being charged. We also found one situation in which City-owned property is occupied without an existing lease and found that files did not consistently contain the documentation required by Minimum Operating Standards.

ACTION PLAN

No.	Recommendations and Management Response
	The Airport Director should:
1	Document a comprehensive policy and procedures manual that includes all aspects of Airport administration and operations. This should include sections on billing and collection of all fees and rents, cash handling, and monitoring lease and license agreements.
	<p>Management Response: Management agrees with the recommendation. The Airport began working with Financial Services staff this Spring to implement the City cashiering system, and to streamline and document Airport procedures in an Airport Administration Policy and Procedures Manual. The audit will help ensure that we document best business practices.</p> <p>Responsible Party: Airport Director Completed By: July 1, 2006</p>
2	Develop procedures to periodically review billing forms and ensure that all fees are included and make corrections to the billing forms as discussed with management.
	<p>Management Response: Management agrees with the recommendation. The periodic review of billing forms will be incorporated into our Airport Administrative Policy and Procedures Manual.</p> <p>Responsible Party: Airport Director Completed By: July 1, 2006</p>
3	Consider using a standard manufacturer weight for all aircraft when calculating the transient landing fees. Policies and procedures related to calculating and processing the transient landing fees should be documented.
	<p>Management Response: Management agrees with the recommendation. Management will research the ability to use a standard weight with the FAA. If FAA concurs, the appropriate procedure will be documented in the Airport Administrative Policy and Procedures Manual.</p> <p>Responsible Party: Airport Director Completed By: July 1, 2006</p>
4	Continue discussions with Accounting to move the billing and payment of Customs Fees from the Airport to Accounting. If this function is not moved to Accounting, then tracking should be developed to ensure that billings and payments are tracked by customer account and that over and underpayments are applied.
	<p>Management Response: Management agrees with this recommendation and will continue working with Accounting on this issue. Policy and procedures related to this issue will be documented in the Airport Administrative Policy and Procedures Manual.</p> <p>Responsible Party: Airport Director Completed By: July 1, 2006</p>

No.	Recommendations and Management Response
5	Develop and document procedures to ensure that the annual fuel flowage reconciliation takes place and is reported to the Airport as required by the Minimum Operating Standards.
	<p>Management Response: Management agrees with this recommendation. The periodic review of fuel reconciliation will be incorporated into our Airport Administrative Policy and Procedures Manual.</p> <p>Responsible Party: Airport Director Completed By: July 1, 2006</p>
6	<p>For Aeronautical Business Permits:</p> <ul style="list-style-type: none"> • Evaluate whether all documents listed in the Minimum Operating Standards are necessary for each permit and revise if necessary. • Develop a checklist and procedures for which documentation is required for each kind of ABP. Define what will be considered acceptable documentation. • Complete a review of all ABP files to ensure that all required documentation is in the file.
	<p>Management Response: Management agrees with this recommendation. Airport and Airpark Minimum Operating Standards will be reviewed and modified to indicate the appropriate documentation is provided as necessary. Checklist and procedures will be included in the Airport Administration Policy and Procedures Manual. Each existing ABP file will be updated accordingly.</p> <p>Responsible Party: Airport Director Completed By: July 1, 2006</p>
7	Complete the lease agreement with the Civil Air Patrol and submit the document to the Commission and Council for approval.
	<p>Management Response: Management agrees with this recommendation. Lease documentation has been in process with the United States Air Force and once complete will be provided to the Airport Advisory Commission and City Council for approval.</p> <p>Responsible Party: Airport Director Completed By: July 1, 2006</p>

BACKGROUND

Scottsdale Airport is a general aviation reliever facility with no commuter or airline service. It is one of the busiest single runway facilities in the nation with approximately 200,000 takeoffs and landings in 2004. Approximately 450 aircraft are based here. The 2,600-acre area surrounding the Airport is known as the Scottsdale Airpark. As the only industrial zoned area in Scottsdale, it is headquarters to over 30 national/regional corporations. Approximately 2,200 small and medium sized businesses also call this airport-based business park home and enjoy the benefits of seven miles of taxiway access into the Airport.

Organizational Structure and Budget

Responsibility for the Airport falls to the Aviation Division of the Transportation Department. Assigned duties include facility operation and maintenance; administration of leases, licenses, and permits for use of City-owned airport property; and oversight of the City's Aviation Noise Abatement Program. Staff serves as project manager for Airport infrastructure, construction, and maintenance and provides building, ground, and system security. As well, staff offers input on regional aviation issues to ensure the protection of the character and environment of Scottsdale and represent the interests of Scottsdale on issues dealing with state and federal regulatory bodies.

The Airport is set up as an enterprise fund. Program revenue from user fees, charges, and support is estimated at \$1.5 million for FY 04/05. The Division has 12.35 full-time employees.

City Code, Chapter 5, and Other Guidance

Chapter 5 of the Scottsdale Revised Code sets the condition under which the Airport or any of its facilities can be used. The Airport Director has the authority to establish and amend rules, regulations, and minimum operating standards as necessary for the orderly and safe operation of the Airport and Airpark. The Director specifies the forms to be used and has the authority to enter into licenses, permits, and leases for the use of City-owned property. To provide assurance that agreements are sufficient to meet the City's needs, the City Attorney must approve the form used to grant a permit, license, or other similar agreement.¹ Licenses or other similar agreements must have a term of one year or less and a minimum of a thirty-day cancellation clause or they are considered non-conforming.

¹ The City Attorney will also approve the form used for any lease because City Code requires this approval before the document can be submitted to Council for approval.

Responsibility for administration and collection of Airport related fees rests with the Tax Collector.² Provisions for the determination, administration, and collection of privilege taxes apply to Airport related fees.

Documents, which define specific fees and reporting requirements, are adopted by reference in the Code. These publications include:

- Scottsdale Airport Rules and Regulations
- Scottsdale Airpark Rules and Regulations
- Scottsdale Airport Minimum Operating Standards
- Scottsdale Airpark Minimum Operating Standards
- Scottsdale Airport/Airpark Rates and Fees Schedule

The Minimum Operating Standards apply to all commercial airport operators and are considered part of the operator's lease, license, permit, or agreement.

Oversight

The seven member Airport Advisory Commission advises City Council on policy matters relating to the operation of the Airport, proposals for development, airport area land use, fees, and safety concerns. The Commission meets monthly with agendas and minutes posted and available on the City's website for public review. The Commission has a direct role in oversight of the Airport because no rule, regulation, or minimum operating standard becomes effective until approved by the Commission. As well, the Commission reviews and approves new fees, modification of existing fees, leases for City-owned Airport property, and non-conforming licenses or other agreements before the request is submitted to Council for approval. The Commission met 11 times in the last year.

Additionally, there is a three member Council subcommittee titled Subcommittee on Regional Aviation Issues. The sub-committee meets on an as needed basis. Two meetings in the last year were held in conjunction with the Airport Advisory Commission.

Conducting Business at the Airport/Airpark

An ABP as well as the normal City business or privilege tax license (if required) is needed to conduct any commercial aeronautical activity at the Airport or in the Airpark. Once granted, a permit remains in effect until surrendered or until there is a failure to comply with any required terms or conditions. Payment of the required monthly fees is a condition of receiving a permit. Fees are payable by the 20th day of the month following the month in

² Under City Code, the Financial Services General Manager is the Tax Collector.

which services are provided and includes the fee, late fees, interest, and penalties.

Collection of Fees

Both the Airport Division and the Financial Services Department have roles in collecting airport-related fees. Financial Services bills and processes payments for tiedowns, transient landings, airport access, hangars, and rents associated with licenses and leases. Aviation handles the following:

- Fees for:
 - Fuel Flowage
 - Charter Aircraft Brokerage
 - Use Passenger Boarding Lounge
 - Customs
- Leases for Private Hangars/Shades
- Business Permit Fees which include:
 - Aircraft Flight Training
 - Aircraft Leasing/Rental
 - Aircraft Maintenance and Repair
 - Charter/Management
 - Commercial Flying Services
 - Mobile Aircraft Washing
 - Off Airport In-Flight Catering
 - On/Off Airport Rental Car
- Charges for:
 - Private Hangar/Office Space
 - Transient Parking
 - Terminal Gate Access
- Permits for:
 - Airport Construction
 - Commercial Photography
- Special Event Permit Fee
- Aircraft Sales Services
- Helicopter Maintenance and Repair Services
- Helicopter Flight Training Services
- Helicopter Leasing or Rental Services

Both areas maintain documentation related to fees they bill. The Airport has copies of lease and license agreements and all billings done from their area. Financial Services maintains copies of all payments received including those received by the Airport and forwarded to Financial Services for deposit.

Although most payments now go to remittance processing, the Airport can still collect payments by cash, check, or credit card. These payments were remitted to Accounting during the audit period (now to banking/remittance processing). Customers have the option of setting up accounts on Surepay (debit from a checking account) or authorizing the Airport to bill credit cards for certain fees, similar to Surepay. Credit card information is maintained at the Airport and charges are run once a month.

SCOPE AND METHODOLOGY

We studied Scottsdale City Charter, Scottsdale Revised Code, Airport and Airpark Minimum Operating Standards, and Airport departmental procedures to gain an understanding of the requirements and processes related to the collection of fees. We interviewed Airport and Accounting management and staff to gain an understanding of their respective billing and collection procedures.

To determine if billing procedures were adequate and fee amounts on billing forms were correct, we compared a list of all fees listed on the Airport/Airpark Fee Schedule, Airport and Airpark Minimum Operating Standards, and lease and license agreements to billing forms and documented billing and collection procedures. We also verified that aging and collection history tracking reports were kept to monitor fee collection. We traced a sample from the detailed trial balance for each fee account to supporting documentation at Accounting and traced the sample of transient landing fees and customs fees to supporting documentation at the Airport. Testing was limited to fiscal year 2003/2004 as the most recent complete accounting period.

To test compliance with Minimum Operating Standards, we reviewed:

- Files at the City Clerk's Office to see if required documents were filed.
- Airport Advisory Commission Minutes for evidence of approval for leases, license agreements, current fees, and ABP ratification.
- City Council Minutes and Resolutions for evidence of approval for leases, license agreements, and current fees.
- Lease and license agreement files to determine if fee amounts were correct and for evidence of City Attorney approval in form.
- A sample of ABP files to determine if all documents required by the Minimum Operating Standards were in the files and if the Airport Director approved permits.
- License agreements with terms of less than one year for evidence of City Attorney approval in form.

Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III, Scottsdale Revised Code, Section 2-117, *et seq.* Survey work took place in April and audit testing was done in May and June 2005, with Stella Fusaro conducting the work.

OBJECTIVE 1: DETERMINE IF PROCEDURES ARE IN PLACE TO ENSURE THAT ALL FEES ARE COLLECTED.

Finding: Procedures, although not all formally documented, are sufficient to ensure that fees are collected.
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Criteria

Procedures should be in place to ensure that each fee will be collected.
Procedures should be documented.

Condition

Processes established by Airport and Financial Services staff provide a framework for timely collection of fees. Remittance forms are mailed on a monthly basis to facilitate payment; envelopes are available at a self-pay station for use in submitting transient parking fees; staff monitors activity at the Airport as a means of ensuring that the appropriate fees are paid; and both the Airport and Accounting billing systems generate aging reports that can be used to identify past due accounts. Finally, Tax Audit staff perform audits of businesses if there is a question on the amount reported.

A number of procedures have been formally documented but we found that those available are scattered and not incorporated into a comprehensive procedures manual that would provide a historical record of what is to be done or serve as guidance to staff if new employees needed to be trained. We also found that the collection of a number of fees hinges on the effectiveness of practices that have not been formalized into written, approved procedures. These include billing procedures related to fuel fees, ABPs, transient parking, transient landing, lease and license agreements, delinquent account collection procedures, and cash handling.

Cause

Management has focused on developing practices for collection but has not stressed the importance of documenting what has been put into place.

Effect

Policies and procedures set out the parameters used by employees to make decisions. Failure to document these parameters can lead to inconsistent treatment. Knowledge can be lost if an employee leaves or is unable to perform the duties.

Recommendation

The Airport Director should document a comprehensive policy and procedures manual that includes all aspects of Airport administration and operations. This should include sections on billing and collection of all fees and rents, cash handling, and monitoring lease and license agreements.

OBJECTIVE 2: DETERMINE IF THE CORRECT FEE AMOUNTS ARE BEING COLLECTED.

Finding: Correct fee amounts are being collected; improvements would reduce the potential for missed payments or errors in calculations.
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Criteria

Fees collected should agree to the Council adopted Rates and Fees Schedule or the terms of the appropriate lease/license.

There should be a billing form/remittance advice for each transaction in Accounting's records and the Airport should have the following documentation:

- Customs User Fee form from Customs Agent.
- Transient Landing Fees should have at least one of the following:
 - Report from software showing landings
 - Visual Log
 - Blue Card

Condition

Airport staff created forms for use in remitting the appropriate fee. Fees listed on the forms agreed to what was listed in the Airport/Airpark Rates and Fees Schedule. We did note three instances in which fees were not listed but did not consider this a material finding. Discrepancies were discussed with management and generally consisted of situations in which there was no business currently permitted to carry out that activity or situations in which lease or license terms required specialized forms. We also noted two instances in which there was a discrepancy between what was listed on the form and what was set in the Rates and Fees Schedule. These differences were also considered immaterial and discussed with management.

We considered the following discrepancies to be reportable conditions:

- We could not verify the amount billed as base rent for one lease because the historical documentation of lease escalation had not been retained.
- Two situations were noted in which businesses were paying a higher fuel flowage and oil percentage than what was listed in lease documents. Airport Management indicated that changes in the rates had been negotiated a number of years ago but could not provide documentation.
- From a sample of 28 transient landing fees, weights on 9 did not agree to the default weight or a reported weight.

- Procedures call for each Customs Fee payment to be reconciled to a billing form as payment is remitted but amounts are not always compared. We noted two instances in which billing forms and payments did not match.
- Procedures for reporting the annual reconciliation of fuel flowage have not been developed. This is a new requirement for fixed based operators with the first complete year being due July 2005 and there is limited assurance that the required information will be reported if procedures are not developed.

Cause

Changes to the fee schedule and Minimum Operating Standards did not always get made to the billing forms. The Minimum Operating Standards may incorporate fees that are only applicable to one operator or because terms are laid out in lease and license agreements and, therefore, may not be applicable to any operator. Discrepancies from lease files may exist because agreements were either not documented or documentation was not maintained. Finally, the reported weight will get keyed into the database the first time a specific aircraft lands at the Airport; this weight does not get updated and becomes the default weight for future billings.

Effect

Fees that are due may not be reported. Calculations may be incorrect resulting in over or underpayment of fees and non-compliance with Minimum Operating Standards and Scottsdale Airport/Airpark Rates and Fees Schedule. Although the amounts of the differences are small, there may be the perception that fees are not being applied fairly and consistently. Without procedures in place, reconciliations may not occur as required and the fee amount remitted may be incorrect.

Recommendations

The Airport Director should:

- Develop procedures to periodically review billing forms and ensure that all fees are included and make corrections to the billing forms as discussed with management.
- Consider using a standard manufacturer weight for all aircraft when calculating the transient landing fees. Policies and procedures related to calculating and processing the fees should be documented.
- Continue discussions with Accounting to move the billing and payment of Customs Fees from the Airport to Accounting. If this function is not moved to Accounting, then tracking should be developed to ensure that billings and payments are tracked by customer account and that over and underpayments are applied.

- Develop and document procedures to ensure that the annual fuel flowage reconciliation takes place and is reported to the Airport as required by the Minimum Operating Standards.

OBJECTIVE 3: DETERMINE COMPLIANCE WITH CITY CODE AND MINIMUM OPERATING STANDARDS RELATED TO THE COLLECTION OF FEES.

Finding: City Code and Minimum Operating Standards requirements related to the collection of fees have been complied with. Improvements in recordkeeping would enhance compliance.

Criteria

1. The following documents are to be on file with the City Clerk:
 - Scottsdale Airport Rules and Regulations
 - Scottsdale Airpark Rules and Regulations
 - Scottsdale Airport Minimum Operating Standards
 - Scottsdale Airpark Minimum Operating Standards
 - Scottsdale Airport/Airpark Rate and Fee Schedules
2. Leases of City-owned airport property are to be approved by the Airport Advisory Commission and City Council.
3. Licenses or similar agreements with a term of one year or less and a minimum thirty-calendar day cancellation clause are to be in a form approved by the City Attorney. The Airport Advisory Commission and City Council must approve non-conforming licenses and agreements.
4. Creation of new fees and modification of existing fees must be approved by the Airport Advisory Commission and the City Council.
5. Applications for ABPs are to be approved or denied by the Airport Director and ratified by the Airport Advisory Commission.
6. Requirements in Minimum Operating Standards should be followed. ABP files should have:
 - Business Permit approved by the Airport Director.
 - Commencement date and term of lease, license, permit, or agreement sought.
 - Filing with Corporation Commission if Corporation or LLC, certificate of limited partnership, or written partnership agreement.
 - Copy of lease/sublease or agreement.
 - Copy of Business Privilege Tax License.
 - Rate and charge schedules if services are provided at the Airport.
 - Copies of FAA Certificates.

Condition

1. All documents required by Section 5-106 of City Code to be on file with the City Clerk were located at the City Clerk's Office.
2. Current controls ensure that City Council and the Airport Advisory Commission approve all leases and license agreements with a term greater than one year.
3. Of the 9 license agreement files available with a term of one year or less, the City Attorney signed 8. One agreement, with the Civil Air Patrol, was not signed and expired in April 2003. Airport staff was aware of this and was working on a lease arrangement with them at the time of the audit.
4. The Commission and the Council approved the current Rates and Fees Schedule.
5. All ABPs in our sample had been approved by the Airport Director and ratified by the Commission.
6. Files did not contain all required documentation and there is no checklist that can be used to determine if required information is not applicable to a particular permit. In a review of 36 files, the following documentation was missing:
 - Eight files did not have documentation of entity organization (i.e., evidence of incorporation).
 - Twelve files did not include proof of ownership or a copy of the lease/sublease agreement for the property where the business was operating.
 - Ten files did not include current Certificates of Insurance.
 - Ten files did not have Business or Privilege Tax Licenses.
 - Twenty-five files did not contain an FAA Certificate.
 - None of the files for the 16 businesses operating at the Airport included a copy of the rate and charge schedules for services to be provided.

Cause

Airport management has made an effort to comply with requirements. Exceptions can be traced to the lack of procedures and higher priorities.

Effect

There is reasonable assurance of compliance. However, the lack of compliance with retention of documents could create a perception of non-compliance. Finally, while there was no rent associated with the Civil Air Patrol agreement, the City does not have a legal document which outlines the responsibilities of each party or that requires the tenant to comply with City Code, Minimum Operating Standards, or insurance requirements.

Recommendations

The Airport Director should:

- Evaluate whether all documents listed in the Minimum Operating Standards are necessary for each permit and revise if necessary.
- Develop a checklist and procedures for which documentation is required for each kind of ABP. Define what will be considered acceptable documentation.
- Complete a review of all files to ensure that all required documentation is in the file.
- Complete the lease agreement with the Civil Air Patrol and submit the document to the Commission and Council for approval.

APPENDIX A - MANAGEMENT RESPONSE

August 8, 2005

To: Cheryl Barcala, City Auditor

From: Mary O'Connor, Transportation General Manager



RE: Aviation Division Audit #0513

I would like to thank the City Auditor Staff for their professionalism in conducting the audit and presenting their findings. The results from this audit will serve as an important tool to help us better serve the Scottsdale Airport users and to help the Aviation staffs enhance their fee collection procedures.

The attached action plan is submitted in response to your findings. Thank you for the opportunity to respond to this audit and I look forward to discussing any issues you may have concerning this response.